LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6628 | **NOTE PREPARED:** Dec 20, 2005
BILL NUMBER: HB 1075 | **BILL AMENDED:**

SUBJECT: Tax Credit for Worksite Health Programs.

FIRST AUTHOR: Rep. Friend | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill requires the State Department of Health to adopt rules to establish a pilot program for the certification of worksite health promotion programs. The bill makes the pilot program open to the first 100 eligible employers that the State Department of Health certifies. It provides eligibility to employers that employ up to 500 employees. It also provides a state tax credit to a certified employer that implements a worksite health promotion program for the employer's Indiana employees. The bill specifies that the credit for a worksite health promotion program is the lesser of: (1) the employer's qualified health promotion expenses; or (2) $50 multiplied by the number of employees.

Effective Date: July 1, 2006; January 1, 2007.

Explanation of State Expenditures: *Department of State Revenue (DOR):* DOR will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the new tax credit for worksite health promotion program expenses. The DOR's current level of resources should be sufficient to implement this change.

State Department of Health (SDOH): The bill establishes a pilot tax credit program for businesses employing 500 or fewer workers that incur expenses making a worksite health promotion program available to employees. The pilot program is to include up to 100 businesses that are certified by the SDOH. The certification process will result in an indeterminable increase in administrative cost for the SDOH. There are approximately 147,000 business establishments operating in Indiana with 500 or fewer employees. It is estimated that there could potentially be about 9,100 business establishments in Indiana with 500 or fewer employees currently providing worksite health promotion services.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The December 5, 2005, state staffing table indicates the SDOH has 120 vacant full-time positions.

Explanation of State Revenues: *Summary:* The tax credit for worksite health promotion program expenses could reduce revenue from the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax (FIT), and the Insurance Premiums Tax. The extent of the fiscal impact would depend primarily on: (1) the size of firms certified for the tax credit by the State Department of Health; and (2) the typical annual net tax liability of these firms. The following three scenarios provide a range of estimates of the potential annual credit total depending upon the particular mix of small and large firms. Since the credit is nonrefundable and can't be carried forward, the actual annual revenue loss arising from these credit totals could be less to the extent that firm tax liabilities are insufficient to exhaust the credit. Revenue loss from the tax credit likely would not begin until FY 2008.

Scenario 1: The tax credit could potentially total about $300,000 annually if the distribution of firms (by number of employees) certified by SDOH is similar to the distribution of firms estimated to be currently providing health promotion programs. This assumes that about 70% of participating firms have fewer than 25 employees; with 24% of participants being firms employing 25 to199 workers and only about 6% of the participants being firms that employ 200 to 500 workers.

Scenario 2: If one-third of the participating firms come from each employer group, the tax credit is estimated to total about $800,000 annually.

Scenario 3: If 60% of the participating firms come from the large employer group, with 20% each coming from the other two employer groups, the tax credit is estimated to total about $1.2 M annually.

Background Information: The bill provides a nonrefundable tax credit against the AGI Tax liability, FIT liability, or Insurance Premiums Tax liability to taxpayers that employ 500 or fewer workers and make a worksite health promotion program certified by the SDOH available to employees. The tax credit is limited to the first 100 firms certified by the SDOH. The tax credit is equal to the lesser of $50 times the number of employees with access to the program during the taxable year, or the costs incurred by the taxpayer in making the program available to employees. The tax credit may be claimed by individual and corporate taxpayers, including shareholders, partners, or members of a pass through entity. The tax credit is nonrefundable, and a taxpayer may not carry back or carry forward excess credit amounts.

Revenue from the corporate AGI tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund.

The credit estimates are based on *County Business Patterns* data that suggests that there are about 147,000 business establishments in Indiana employing 500 or fewer persons. It is estimated that about 127,000 firms employ fewer than 25 workers, about 18,000 firms employ 25 to 199 workers, and about 1,700 firms employ 200 to 500 workers. These totals plus survey results from the *Kaiser Family Foundation* as to the incidence of worksite health promotion programs among business firms nationally, suggest that about 9,100 Indiana firms employing 500 or fewer workers currently provide some health promotion services. These services include fitness programs, smoking cessation programs, injury prevention programs, and weight loss programs. It is estimated that about 6,355 (or 70%) of these firms employ fewer than 25 workers; 2,208 (or 24%) of these firms employ 25 to 199 workers; and about 508 (or 6%) of these firms employ 200 to 500 workers. Using the midpoint of the employee ranges, the average tax credit would be about $700 for firms in the small employer group, with credits averaging about $5,600 for employers of 25 to 199 workers and $17,500 for the large employer group. In 2003, about 22.8% of corporate taxpayers had net tax liabilities exceeding $700, 9.1% had net tax liabilities exceeding $5,600, and about 4.4% had net tax liabilities exceeding $17,500. It is estimated that in 2003 about 77.9% of sole proprietor businesses filing as individual taxpayers had net tax liabilities exceeding $700, with about 4.3% having net tax liabilities exceeding $5,600.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Health.

Local Agencies Affected:

Information Sources: Kaiser Family Foundation, Employer Health Benefits 2005 Annual Survey, available at http://www.kff.org; U.S. Census Bureau, *County Business Patterns*, 2003, available at http://www.census.gov; OFMA Income Tax databases.

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